



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 2/3/2003

GAIN Report #BR3601

Brazil

Poultry and Products

Semi-Annual

2003

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Report Highlights:

Brazilian broiler production increased by 12 percent in 2002, and exports by 26 percent. Current estimates for 2003 indicate continued expansion in broiler production and exports, but at more moderate rates.

Includes PSD changes: Yes

Includes Trade Matrix: No

Semi-Annual Report

Brasilia [BR1], BR

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Executive Economic Summary

In the past decade, Brazil has undertaken a number of economic reforms that dramatically reduced inflation and opened the economy to private sector investment. In 1994, Brazil initiated an economic stabilization program known as the Real Plan, which was highly successful in reducing longstanding inflation. The plan also inaugurated one of the world's largest privatization programs. However, when growth slowed, the economy's dependence on external financing and the government failure to control its finances, left the economy vulnerable to external shocks. In 1999, the government was forced to float and devalue the real. Since 1999 the government has been dedicated to fiscal discipline, highlighted by the passage in May 2000 of the Fiscal Discipline Law, which sets strict limits on government spending at the federal and sub-federal level. The government also initiated an inflation-targeting program as the basis of monetary policy, wherein the government sets a target and the Central Bank strives to keep inflation within a band around the target. The new government that took office in January 2003 has stated that it will maintain fiscal discipline, inflation targeting, and a floating exchange rate.

2002 was a difficult year for the economy, as investor confidence fell because of uncertainty surrounding the 2002 elections, volatile international financial markets and the weak global economy. This was on top of the economic turbulence experienced in 2001, when the Brazilian economy was buffeted by a domestic energy shortage, an economic crisis in Argentina, and the after effects of the September 11 terrorist attack. The exchange rate depreciated 52% in 2002, on top of a 19% decline in 2001. Inflation crept up to 12.5% in 2002, forcing the Central Bank to raise interest rates. Growth was modest, 1.5% in 2001 and perhaps a bit higher in 2002. With the depreciation, high interest rates and slow growth, the government's debt burden increased. With the weaker exchange rate, Brazil turned a trade deficit in 2000 to a small trade surplus in 2001 and \$13 billion surplus in 2002. The surplus ameliorated the balance of payments pressure Brazil experienced because of a fall in international lending and slowdown in foreign direct investment, but the Central Bank had to draw on its international reserves in 2001 and 2002 to cover the financing gap. Brazil signed a \$30 billion IMF program in August 2002.

In spite of these pressures, the economy avoided a serious crisis, in part because of the reforms adopted in the 1990s. The new government has affirmed that it intends to pursue stable economic policies and implement structural reforms. If the government is able to do so, the pressure on government finances, balance of payments, exchange rate and inflation should decline, and the economy would be in a position to grow more rapidly.

Commodity Outlook, Broiler

Production

Broiler production in 2002 reached 7.355 million metric tons, up 12 percent from 2001. According to our trade sources, production last year was higher than previously forecast because of a surprising increase in the placements of day old chicks during the last quarter of the year. This is contrary to an agreement reached in August by which producers decided to slow down production to adjust supply to demand, and to avoid the impact of higher feed costs derived from increased prices of corn and soybean meal. Apparently, firm export demand combined with higher domestic consumption contributed to additional production of 28 million chicks per month, during the last quarter of the year. Broiler production increased faster in the states of Parana and Santa Catarina, followed by Goias and Mato Grosso do Sul.

In addition, broiler production also increased due to the continued improvement in the productive capacity of the major broiler packers, including maturing of new investments in production capacity in the Center-West regions of the country. On February 6, 2003, the second largest packer in Brazil - Perdigao - will officially inaugurate the expansion of their production capacity in the state of Goias, one of the largest broiler facilities in the world.

The outlook for broiler production in 2003 calls for an increase of 5 percent, about one half of last year's growth. One of the factors contributing for this optimistic outlook is the increase in domestic demand for chicken due to the new federal program called "Zero Hunger" recently announced by the new Government of Brazil, and the possibility of using chicken meat to improve the diet of the poor. However, the high dependency of broiler production on the second corn crop, which is subject to higher climatic risks, and the possibility of high feed costs in the second semester of the year, can offset the optimistic forecast made by sector leaders.

Trade

Final export data for 2002 is not available yet, but trade sources indicated that total exports of broilers (whole and parts) in 2002 reached 1.6 million metric tons, an increase of 26 percent from the previous year. Exports were up due to the following factors: a) devaluation of the Brazilian currency by 53 percent in 2002; b) significant increase in broiler exports to Russia and to the European Union; and, c) exports to new markets. In 2002, Brazil shipped poultry meat to 100 markets compared to 78 markets two years ago.

According to trade sources, although the volume exported increased significantly, the value of broiler exports increase by only 4 percent due the decrease in the export value of the product. Preliminary data indicates an average export price of US\$840 per metric ton in 2002, a drop of 23 percent compared to the average price of US\$1,033 per metric ton in 2001.

Post increased our previous estimate for broiler exports in 2003 from 1,325 million metric tons to 1,680 million metric tons, or a 5 percent increase above last year. The following factors will likely contribute to the increase in broiler exports in 2003:

a) An estimated average exchange rate between R\$3.30 and R\$3.60 in the first semester of 2003, which helps the Brazilian broiler exporters to be highly competitive in the world market; b) the outbreak of Newcastle disease in the United States which benefits the image of the Brazilian product in Asian markets, and, c) the possibility of increase in exports to new markets such as Canada and China.

Conversely, the following factors can adversely impact on Brazilian broiler exports in 2003: a) a drop in the second corn crop in Brazil would contribute to higher feed costs and reduce producer profit margins; b) the possibility of Russia establishing an import quota for broilers. According to trade sources, the Russian import quota for Brazilian chicken will likely be established at 33,000 metric tons in 2003, which represents only 11 percent of the total chicken exports to Russia in 2002 estimated at 295,741 metric tons. Brazilian exporters are negotiating with the Russians because they are using the average import data by country for the period 1999-2001, when Brazil was not a key player in that market; and, c) problems with the detection of the antibiotic Nitrofurantoin in Brazilian broiler exports to the European Union, and the EU decision to conduct 100 percent inspection on all chicken imports from Brazil. According to trade sources, Brazilian exporters are facing problems in Italy with an NGO that is alerting Italian consumers against Brazilian chicken contaminated with Nitrofurantoin. Recently, the Ministry of Agriculture has approved 3 Brazilian laboratories to conduct tests on Nitrofurantoin (which has been prohibited in Brazil for the past 8 months), using the same testing methodology used by the European Union.

Policy

The new socialist-oriented Brazilian Government has announced the "social" inclusion as the main government priority for the next 4 years. One of the programs that could boost domestic consumption of food in general, and chicken in particular, is the "Zero Hunger" program for poor people. However, it is not clear yet how this program can, in fact, increase Brazil's chicken production.

Commodity Outlook, Turkey

There are no changes in PS&D for Turkey.

PSD Table, Poultry, Meat, Broiler

PSD Table						
Country	Brazil					
Commodity	Poultry, Meat, Broiler				(1000 MT)(MIL HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Inventory (Reference)	31	31	31	31	0	32
Slaughter (Reference)	3509	3509	3685	3933	0	4171
Beginning Stocks	0	0	0	0	0	0
Production	6567	6567	7040	7355	0	7800
Whole, Imports	0	0	0	0	0	0
Parts, Imports	0	0	0	0	0	0
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	6567	6567	7040	7355	0	7800
Whole, Exports	580	580	600	674	0	690
Parts, Exports	661	661	825	926	0	990
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	1241	1241	1425	1600	0	1680
Human Consumption	5326	5326	5615	5755	0	6120
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	5326	5326	5615	5755	0	6120
TOTAL Use	6567	6567	7040	7355	0	7800
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	6567	6567	7040	7355	0	7800
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0

PSD Table, Poultry, Meat, Turkey

PSD Table						
Country	Brazil					
Commodity	Poultry, Meat, Turkey				(1000 MT)(MIL HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	165	165	182	182	200	200
Whole, Imports	0	0	0	0	0	0
Parts, Imports	0	0	0	0	0	0
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	165	165	182	182	200	200
Whole, Exports	3	3	3	3	3	3
Parts, Exports	66	66	72	72	78	78
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	69	69	75	75	81	81
Human Consumption	96	96	107	107	119	119
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	96	96	107	107	119	119
TOTAL Use	165	165	182	182	200	200
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	165	165	182	182	200	200
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0